1 Canadian Stock to Buy While the Dividend Yields More Than 6%

Description

Canadian dividend stocks with yields over 5% have been in high demand these days, as investors rotate out of no-yield growth stocks and into companies that actually generate earnings. Indeed, dividends are a great way to reduce the impact of high inflation.

Currently, Canada's inflation rate is just north of 8%. That's the highest it's been in many decades. Though the Bank of Canada (BoC) can only take steps to reduce inflation's impact down the road, I think its recent front-loaded rate-hike strategy is only prudent. It's far better to raise interest rates by more than necessary than to run the risk of not having as many to curb inflation's scorching-hot run.

We've all felt inflation's pinch on our wallets. While some will feel the effect of higher interest rates, I'd argue that it's far healthier to have an environment with inflation under control. In any case, it's unclear when inflation will begin backing down.

Fortunately, many market watchers are encouraged by the cooling off of various commodity prices. Oil plunged from around US$120 per barrel to south of US$95 per barrel in recent weeks, as markets come to terms with a recession that could hit later this year or earlier next year.

Don't fear rate hikes: Use dividends to offset inflation's impact

Tune into any TV show, and you're likely to hear many try to predict how much the BoC will hike next. Trying to time a central bank or where rates will be in a year from now, I believe, is a waste of time. Instead, investors should focus on the next five years out, with a focus on picking up low-cost dividend payers that are unlikely to reduce their payouts through a period of economic weakness.

Currently, I'm a massive fan of **Enbridge** (TSX:ENB)(NYSE:ENB), one well-run midstream oil and gas company that sports a yield of 6.1%.

Enbridge

At writing, Enbridge's dividend is powered by a very robust operating cash flow stream. In the first quarter, Enbridge clocked in $1.33 billion in earnings from operations. Per-share earnings came in at $0.84 — just a penny shy of what Wall Street analysts were expecting.

Indeed, the very slight bottom-line miss did no favours for the stock, which ended up shedding more than 22% of its value in a matter of weeks. I think the selloff was unwarranted, especially given the company faced foreign exchange hedging losses — an earnings dampener that should be viewed as temporary.

Looking ahead, Enbridge is standing by its original 2022 guidance, with $15-15.6 billion in adjusted EBITDA (earnings before interest, taxes, depreciation, and amortization) and distributable cash flow of $5.20-5.50 expected.

Enbridge is still on track, and management remains upbeat.

With a secure dividend that survived the 2020 stock market crash, I'd look for Enbridge to hike its dividend by a generous amount in 2023, recession or not. If Enbridge shows signs that it can meet or surpass guidance, look for a double-digit percentage dividend hike at some point in the next year. A double-digit percentage dividend increase of a 6.1%-yielding payout is a big deal!

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